

**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**VRS Oversight:  
VRS Biennial Status and Semi-Annual  
Investment Report: July 2002**

**JLARC Staff Briefing  
July 8, 2002**

# VRS Oversight Act

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- **Section 30-78 *et seq.* of the *Code of Virginia* requires JLARC to oversee and evaluate VRS on a continuing basis**
- **Areas for review and evaluation include:**
  - **Structure, governance, administration, and management**
    - **Biennial status report required**
  - **Actuarial policy and actuarial soundness**
  - **Investment practices, policies, and performance**
    - **Semi-annual investment report required**

# Semi-Annual Investment Report

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- The market value of the fund's assets as of March 31, 2002, was \$36.8 billion
- VRS' investment returns for the one- and three-year periods, 1.3 and 3.6 percent respectively, fell short of the actuarial assumed investment return of eight percent
- Investment returns for the five-year period ending March 31, 2002, were 9.2 percent
- The total fund investment return for the 10-year period ending March 31, 2002, was 10.4 percent

# **Semi-Annual Investment Report**

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- **As public equity comprises 62 percent of the portfolio, the public equity market continued to negatively impact the fund's overall investment performance**
- **Real estate and fixed income provided necessary fund diversification for the year ending March 31, 2002**
  - **Real estate            12.2 percent**
  - **Fixed income        5.3 percent**

# **Semi-Annual Investment Report**

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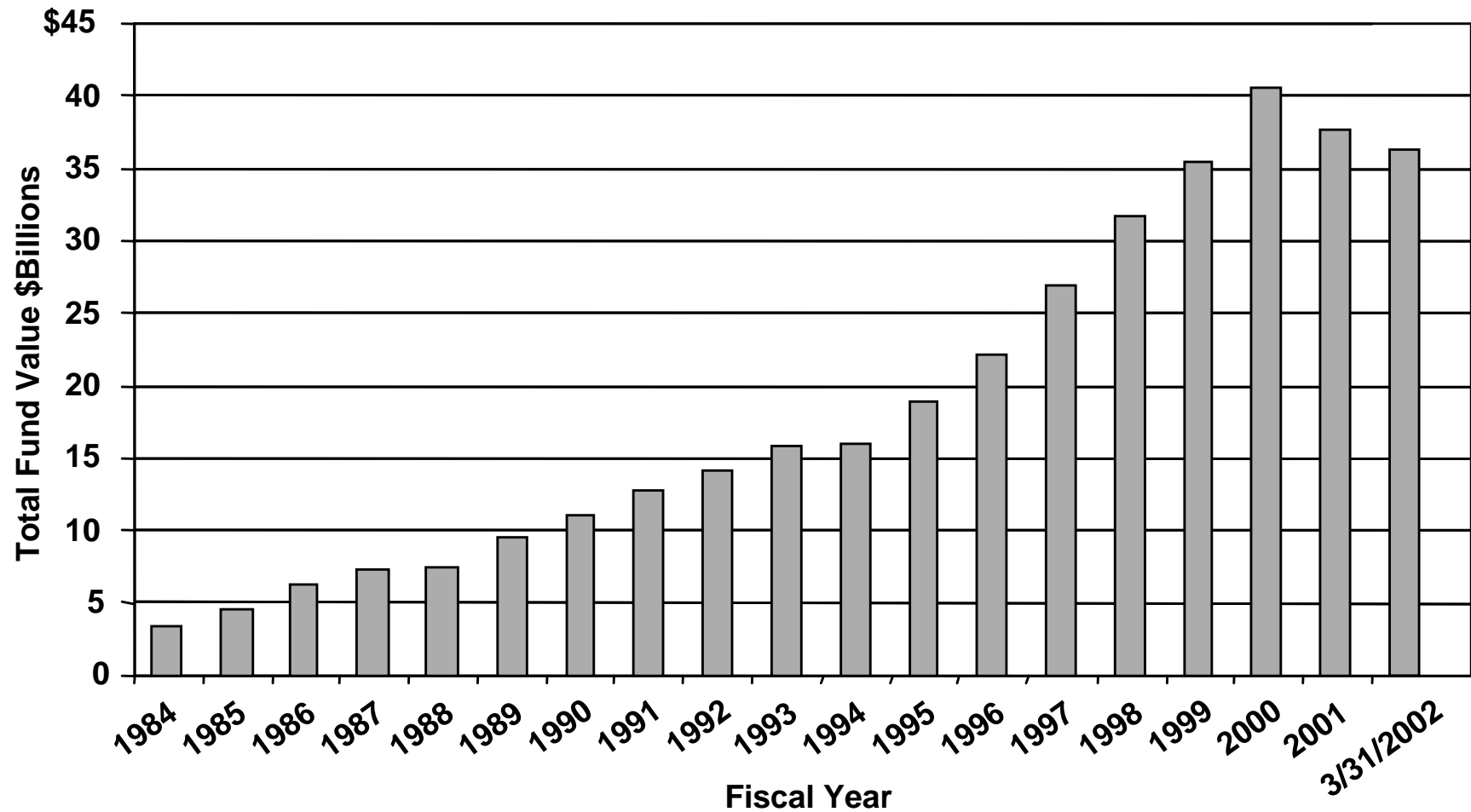
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- **While private equity and non-U.S. equity reported negative returns for the one-year period ending March 31, 2002, both outperformed their respective benchmarks for the three-year period**
- **Since the private equity program's inception in 1989:**
  - **inflows have exceeded outflows by \$1 billion, and**
  - **the annualized rate of return is 26.4 percent**

# Semi-Annual Investment Report

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# Recent Changes in Leadership at VRS

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- **W. Forrest Matthews appointed agency director**
- **Alfonso Samper appointed by Governor Warner to serve as Chairman of the Board of Trustees**
- **J. Douglas Conway, Vernard W. Henley, and Raymond B. Wallace appointed to the Board of Trustees**

# VRS' 2001 Actuarial Valuation and Benefit Funding

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- The funded ratio for all five employer groups improved since the last valuation
  - State employees 106.8 percent
  - Teachers 106.2 percent
  - State Police 88.9 percent
  - Judicial 80.9 percent
  - Virginia Law Officers 62.6 percent
- Improvement in the funded ratio is largely due to asset gains on the actuarial value of assets
- Calculated employer contribution rates decreased for all five groups



# **Actuarially Calculated Rates for FY 2003 and FY 2004 Reflect Benefit Changes**

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- **Several recent policy changes and benefit enhancements have been included in the FY 2003 and FY 2004 rates**
  - **State police temporary supplement extended from age 65 to Social Security retirement age**
  - **Benefit multiplier for VaLORS changed from 1.7 percent to 2.0 percent**
    - **No temporary supplement for all new hires and rehires after July 1, 2002**
    - **No temporary supplement for current participants who elected to change formulas**
- **Due to enhanced benefits available to members of SPORS, VaLORS, and JRS, the rates for these programs are substantially higher than for State employees and teachers**

# Retiree Health Insurance Credit and Group Life Insurance Rates

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- Rates for the retiree health insurance credit and group life insurance program have increased since the last valuation
- The Board of Trustees adopted an actuarial approach to funding of the health insurance credit instead of a pay-as-you go approach
- Group life insurance has not been fully funded
  - Rates increased from 0.80 percent in 1998 to 0.98 percent in 2001
  - “Premium holidays” for group life were provided in FY 1994, FY 1997, FY 1999, and FY 2000

# Deferred Compensation and Cash Match Plans Enhanced

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- **Implementation of the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) made a number of significant changes to the State's 457 DCP plan, including:**
  - **increased deferral and catch-up limits,**
  - **removal of the coordination requirement for 403(b), 401(k) and 457 plans, and**
  - **service purchase through plan-to-plan transfers**

# **Deferred Compensation and Cash Match Plans Enhanced**

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## **■ Effective July 1, 2002:**

- wage employees may participate in the DCP plan, but are not eligible for the cash match
- 12-month waiting period for the cash match plan for those employees participating in the DCP plan has been eliminated

## **■ Employer cash match program increases participation:**

- Prior to match implementation in December 1999, total DCP participation was 16,384
- One year after implementation in December 2001, participation had increased to 27,793

# VRS Program Changes and Enhancements

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- Since 1999, many changes have been made to the benefits and programs administered by VRS
- VRS added oversight and administration of the Optional Retirement Program for colleges and universities and school superintendents
- New retirement options made available:
  - Partial Lump Sum Payment (PLOP) established
  - Leveling option eliminated
  - Higher multiplier established for VaLORS
- Purchase of service streamlined -- VRS currently receiving thousands of service credit applications each month

# **VRS Program Changes and Enhancements**

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- **Life insurance program enhanced**
- **Virginia Sickness and Disability Program expanded:**
  - **Fall 2002 open enrollment**
  - **Technical changes made to the program**
  - **Long-term care coverage added**